

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

WRITTEN STATEMENT OF SHELLEY MURPHY

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GSA NETWORKX ACQUISITION PROGRAM

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Mr. Chairman and members of the Committee, my name is Shelley Murphy, and I am the Vice-President of Verizon Federal Markets

I want to thank you for once again giving me the opportunity to testify on the GSA Networkx procurement.

Verizon continues to be pleased with the open communication by Congress and the GSA during the Networkx procurement process. Although we appreciate that the GSA has listened to the concerns expressed by industry, the draft RFPs show that issues remain.

The GSA is on record stating that the Universal and Enterprise programs are designed to provide multiple options for both technologies and vendors to the Government. Based on the draft RFPs, the procurement's current structure does not serve the GSA's stated purpose. By GSA design, more companies can bid on the Enterprise RFP than on the Universal RFP. The Enterprise-specified sites comprise only 3% of the Universal locations, and only 9 of 39 Universal services are required under Enterprise. But because of this design, the major, mission-critical networks will most likely be competed for under the Universal contract.

Once an Agency decides to use the Universal contract, vendors holding only the Enterprise contract are precluded from bidding on the Agency's requirements, even if the Enterprise vendors can meet those requirements. With no direct way to compete for Universal business, the Enterprise contract does not provide the Government with sufficient options, and makes the contract less attractive to potential bidders.

This issue could be corrected by allowing direct competition by Universal and Enterprise Awardees for an Agency's requirements or by the ability to "graduate" from the Enterprise to the Universal contract. Enterprise Awardees would have an incentive to expand their services to match those of the Universal contract offerings, either so they could directly compete, or so they could "graduate". Either approach would benefit the Government by providing a large, expanding pool of companies that could compete for Universal business over the term of Networx contracts. These approaches are similar to the current, successful GSA practice under FTS2001 where holders of the Metropolitan Area Acquisition contracts "graduate" to a FTS2001 Cross-over contract so that the FTS2001 and Cross-over contract holders can directly compete for an Agency's requirements.

Another issue which may severely limit competition is the remaining requirements for a Networx-specific billing system, and other back-office systems. To meet these requirements, the bidders' billing and back-office systems will require extensive customization and result in substantial development and maintenance costs. This is true for both the Enterprise and

Universal programs, although it impacts potential Enterprise bidders more due to the significantly lower revenue anticipated for the total Enterprise program.

Verizon's internal estimate is that the cost of upgrading and maintaining our infrastructure to provide the service order, billing, and reporting systems required by the Enterprise program approaches the new proposed total of \$50M Minimum Revenue Guarantee which will be equally allocated among the Enterprise Awardees. Verizon's estimate takes into account that the Company already has dedicated Government systems for provisioning and billing for our GSA WITS2001 and other Federal contracts. Considering the still low Minimum Revenue Guarantees and the probable division of revenues between the two contracts, it is difficult to conceive of a business case where bidding only the Enterprise contract is financially feasible. Without a large revenue stream from the current FTS2001 contract that reasonably could transition to Networx, even the Universal contract encompasses sizable financial risk to bidders. This single issue is having the most impact over decisions to bid or not to bid for a Networx contract. To maximize competition, either the requirements must more closely mirror commercial practices, or the Minimum Revenue Guarantees, especially for the Enterprise program, must cover the risk of system development.

One way to address the issue while meeting the billing needs of the Agencies, reducing the requirements to the vendors, and maintaining the current Minimum Revenue Guarantees is one that the GSA is apparently considering, as evidenced by its release of a "Sources Sought" request for a highly customized, Government-specific, billing system. If GSA proceeds with this separate billing

procurement, then it could provide the highly specialized and unique billing requirements requested by the agencies without requiring each bidder to develop their own system. This would substantially reduce up-front and continuing costs associated with the billing system, maximize the number of bidders on Networx and allow lower prices to the Government.

The current structure of the draft RFPs also requires vendors to bid to a limited set of pre-defined features, Service Level Agreements, and prices. This commoditizing of services will result in fewer options for the Agencies and increase prices. As a result, agencies may decide not to use Networx and instead issue their own separate procurements. With commercial-like offerings, choices will increase and prices kept low. Individual agencies can then determine which combination of features, service level agreements, and prices meets their requirements.

Another issue that may limit competition and increase costs to the Government is that the mandatory performance requirements of the Networx draft RFPs are generally more restrictive than in the commercial marketplace. These restrictive requirements are pervasive through the draft RFPs, especially in the required standards, in the Service Level Agreements, and in the pricing format. The structure of the Networx draft RFPs is directly opposite the Federal Government's goals of reducing expense and gaining flexibility by adhering to commercial practices. Among the issues are:

- Many “Routine” Service Level Agreements exceed those available from specific vendors. This will either limit services that bidders offer, or raise the price to the Government.
- Meeting the “Critical” Service Level Agreements will further increase costs to the Government.
- The structure of the pricing tables does not provide the flexibility to meet the individual needs of the Agencies. This is especially true if local services are added to the Networx requirements.
- The pricing philosophy tries to force customized solutions into a “one-size-fits-all” price.

Emerging services create an additional issue as the draft Networx RFPs try to pre-define features, Service Level Agreements, and require 10-year pricing. With new technologies, manufacturers create de facto standards based on their own implementations which, over time, are either accepted as, or replaced by industry-wide standards. Features and services evolve, and, more importantly, prices and pricing structures change. The only way to take advantage of the evolution of the emerging services is to let the marketplace determine the standards, features, and pricing structure as they evolve and then apply this to the Networx contracts, rather than locking into a structure which may become quickly outdated. This could be accomplished by allowing the Awardees to periodically refreshing the entire feature, Service Level Agreement, and price structure of the emerging technologies.

GSA should also consider the rapid pace of change, technology infusions, and the commercial market when acquiring wireless products and services for the next 10 years. High speed wireless voice, data and Internet products and services will increasingly provide the Federal Government with the tools and solutions required to enhance and extend the traditional office environments, especially to remote users. GSA should relax the wireless specifications to allow the competitive market forces to foster the environment necessary for wireless to continue serving government customers compliantly and creatively.

Based on recent comments by the GSA on meeting the April 1 RFP release date, Verizon is concerned that the procurement may move forward too quickly in order to meet an artificial deadline. Approximately 2500 comments were submitted by industry on the draft RFPs. Industry does not know what comments were made, and GSA plans on only responding to industry's suggestions through issuance of a final RFP, at which point it will be too late to effectively react to the changes made to the RFP. Due to the importance of Networx over the next decade, after incorporating any changes, the GSA should issue another set of draft RFPs, including the RFP sections missing from the initial drafts. The GSA should then allow a brief period for Industry to comment and for GSA to incorporate relevant suggestions into the final RFPs. This will help ensure that the GSA issues an RFP which will maximize competition and minimize costs of services to the Government.

To summarize Verizon's main points:

- Verizon believes that the relationship between the Universal and Enterprise contracts should be tighter, with a way for Enterprise Awardees to either directly compete with, or “graduate” to the Universal program. Without such a change, the current approach will result in decreasing choices, higher costs, and limited flexibility to the Government.
- The high entry costs associated with building specialized billing and back-office systems, and low expected revenue under the Enterprise program will limit participation. This will further reduce the competitive choices available to the Government. Outsourcing the billing system or reducing the requirements to mirror commercial offerings will increase vendor participation in the Networx program.
- The draft RFP presents all Networx requirements as specifically-engineered, universally-available, standard-priced commodities. This eliminates commercially available combinations of features, Service Level Agreements, and pricing that may better fit Agency requirements. The trade off between price and performance should be an end-user decision. Such an approach will also encourage agencies to make maximum use of the Networx contracts rather than establish their own procurements.
- Price structures and specifications are still fluid for several emerging services specified in the draft RFPs. Locking in types, specifications, features, service levels and pricing for an extended period could

disadvantage the Government over the long term. This could be solved by periodic refreshment of the requirements.

- And finally, the GSA needs to issue another set of draft RFPs. These drafts should include the RFP sections previously missing and allow industry a brief period to comment on them, as well as to comment on the changes made to the initial draft RFPs. This will result in a well-considered RFP on this important procurement.

I thank the Committee for the opportunity to discuss the Networx procurement and would be pleased to answer any questions.